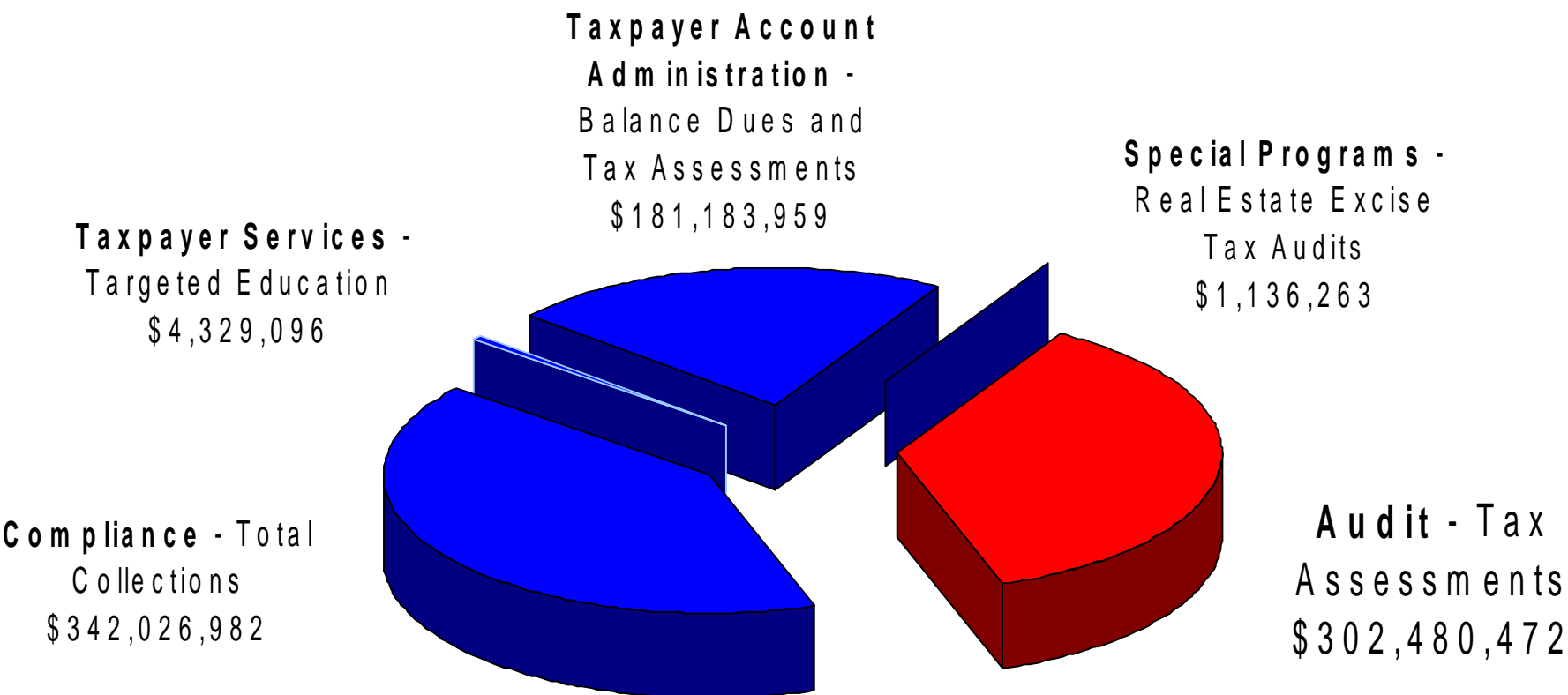


Business Compliance Audits

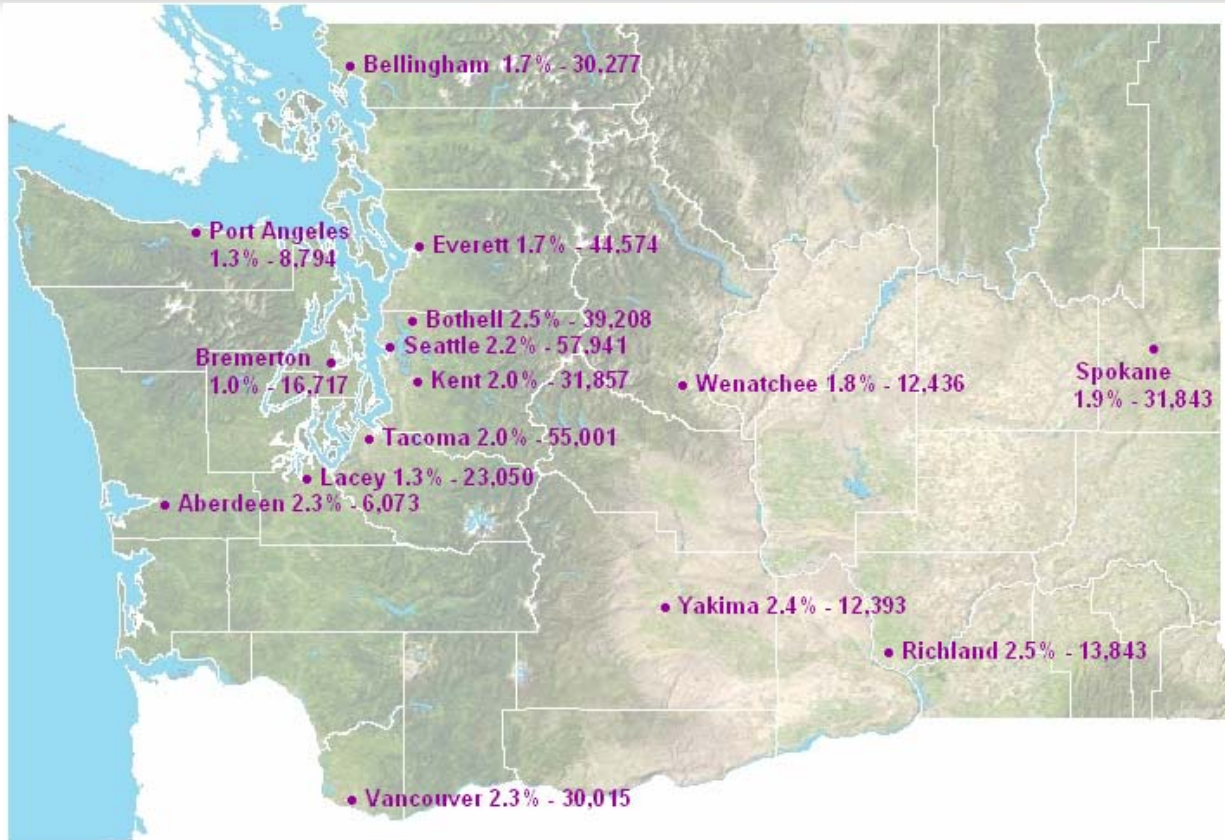
Business Compliance Audits only a portion of Revenue's total enforcement results



Data Notes: FY06 total enforcement results: \$831,156,772

Business Compliance Audits

We have auditors in 15 field offices across Washington State



Legend:

City Field office location

% Average annual percent of active accounts audited in each field office region

#,### Number of active accounts in each field office

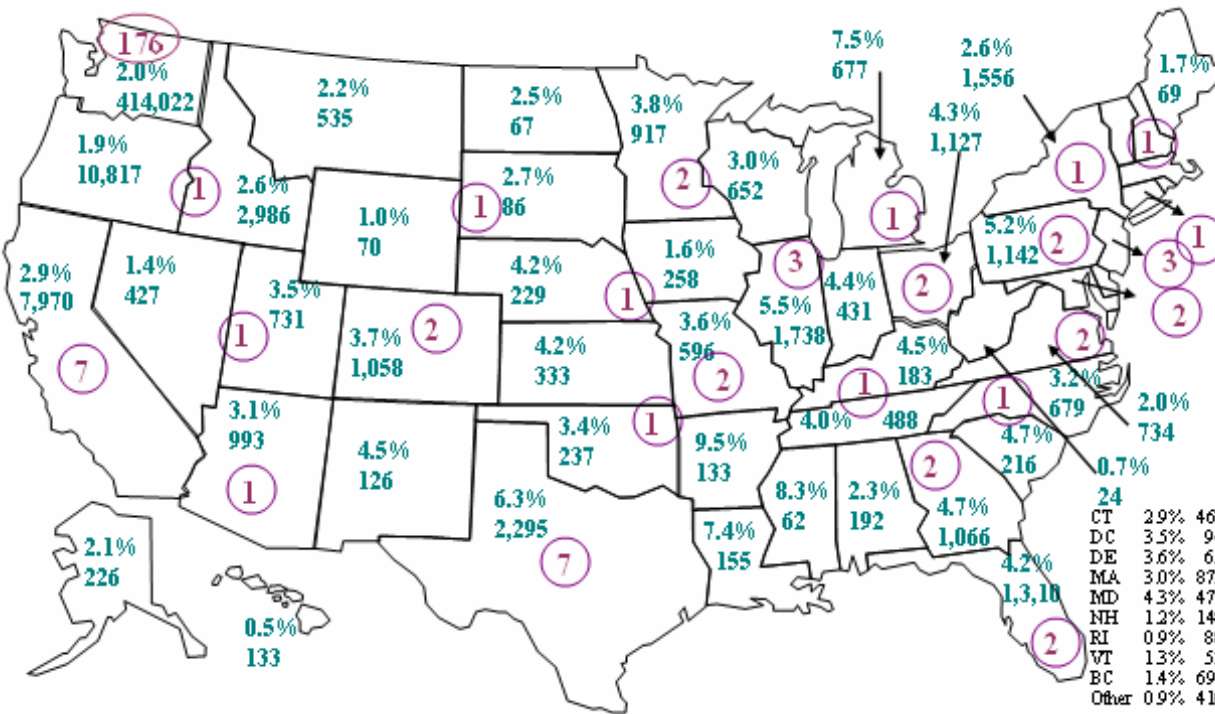
Analysis

- 462,532 active accounts; 414,022 (90%) are based in Washington.
- Washington accounts pay 60% of all excise taxes.
- 176 field auditors in Washington.

Data notes: We audit throughout Washington. Auditors in the border offices (Bellingham, Spokane, Richland, Vancouver) also audit in adjacent states and British Columbia.

Business Compliance Audits

We have auditors covering every state in the nation



Legend:

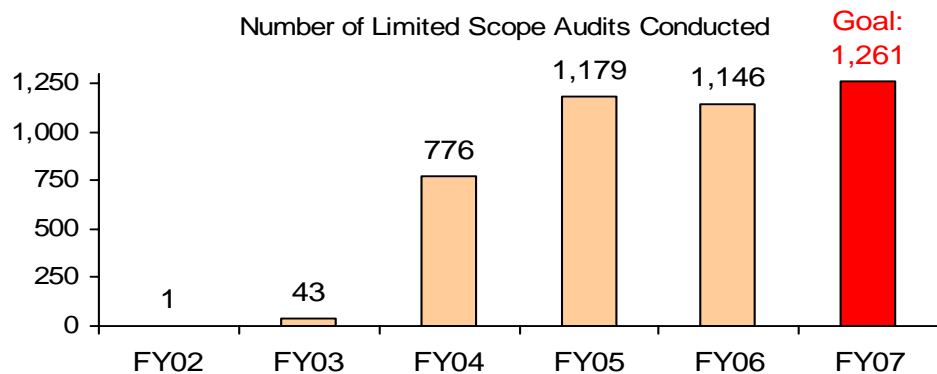
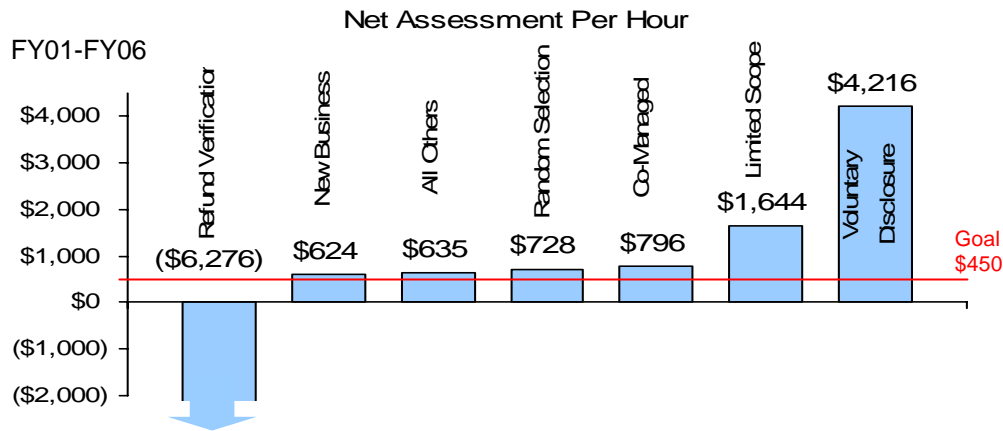
- # Number of auditors in that area
- % Average annual percent of active accounts audited in each state
- #,### Number of active accounts in each state

Analysis

- 48,510 (10%) active accounts are based outside of Washington; these are businesses with a physical presence in Washington.
- Out-of-state* accounts pay 40% of all excise taxes.
- 1,101 are international accounts.
- 50 auditors work on *out-of-state* accounts.

Business Compliance Audits

We measure efficiency by assessment dollars per auditor hour



Data notes: Audits typically cover four years plus the current year; therefore assessment per hour is shown for FY01-FY06. Limited Scope audits began at the end of FY02. Voluntary Disclosure audits separately tracked beginning FY03.

Analysis

- We perform refund verifications; most are from the wholesale and manufacturing industries.
- Limited Scope audits are audits of one area rather than all areas Revenue administers.
- Limited Scope has the largest assessment per hour but is not appropriate in all situations.
- Voluntary Disclosure audits are where a taxpayer voluntarily comes forward to correct past mistakes.

Action Plan

- Increase use of limited scope audit program by 10% in FY07 (Mike Grundhoffer).

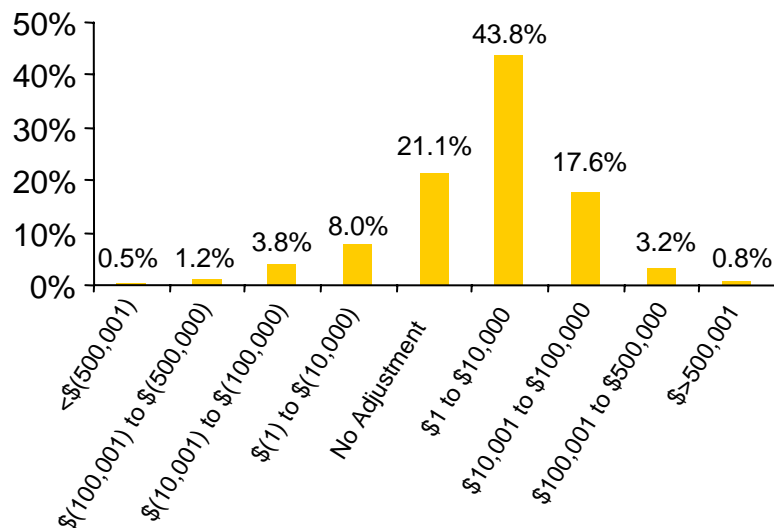
Business Compliance Audits

How do we know we have a balanced approach to audit enforcement?



Distribution of Audit Assessments

FY01-FY06



Data notes: Our audit period is typically 4 years plus the current year. Large businesses are normally audited every 4-5 years.

Background and Analysis

- 78.4% of all audits result in \$10,000 or less in assessment.
- 21.1% of all audits result in no tax due. Our national benchmarking project shows us that this percentage is smaller than most states. This is due to Revenue's more sophisticated audit selection methodologies, resulting in better use of resources.
- 13.5% of all audits result in refunds to taxpayers.
- A small percentage of all audits result in large assessments and large refunds.

Action Plan

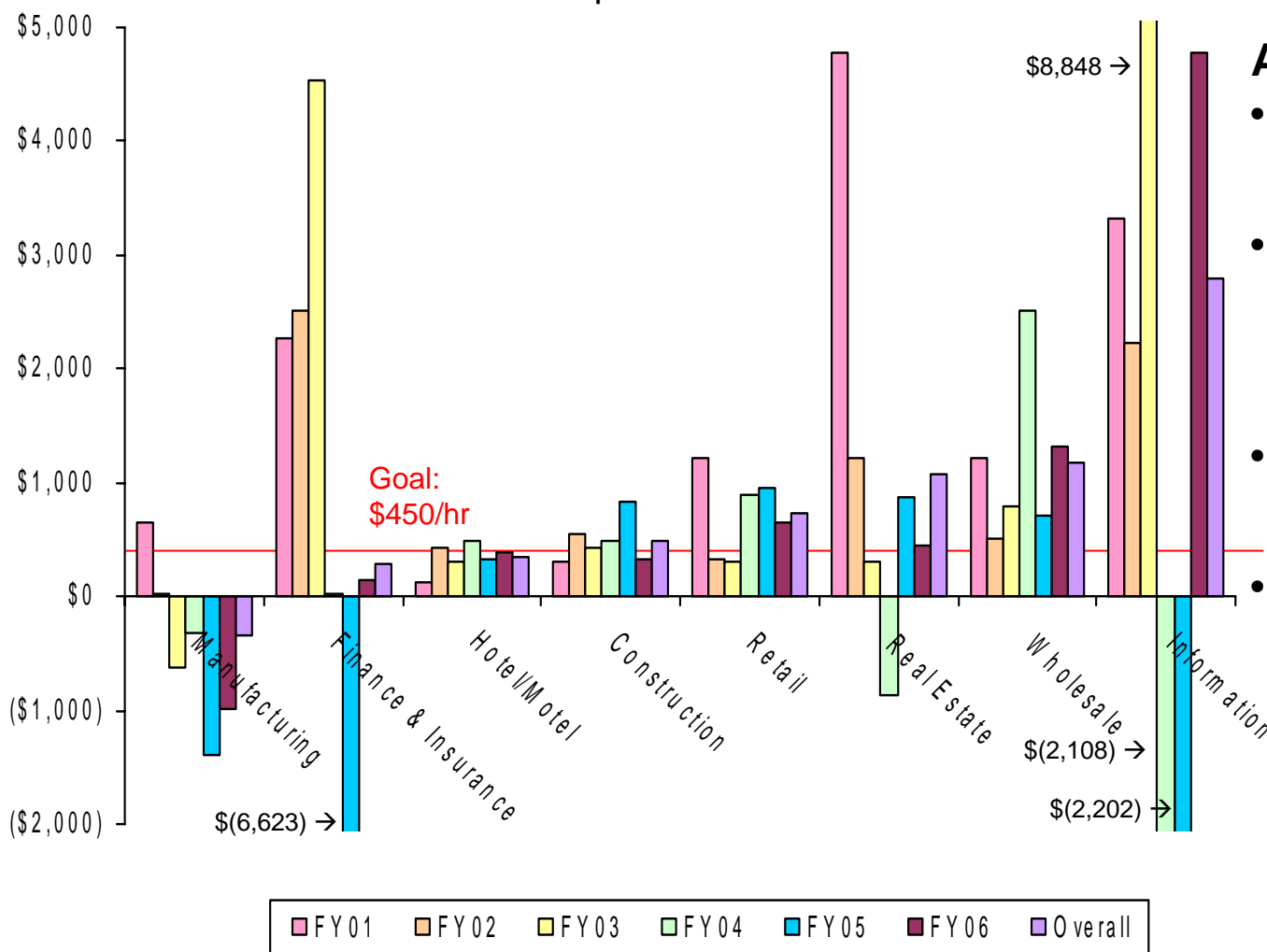
- Continue to refine audit selection process to focus on misreporting (Mike Grundhoffer; monitor monthly).
- Analyze audit data to determine if there are taxpayer groups who will benefit from targeted education (Mike Grundhoffer; December 2006).

Business Compliance Audits

We audit all industries; and balance audit presence with revenue generation.



Net assessment per hour

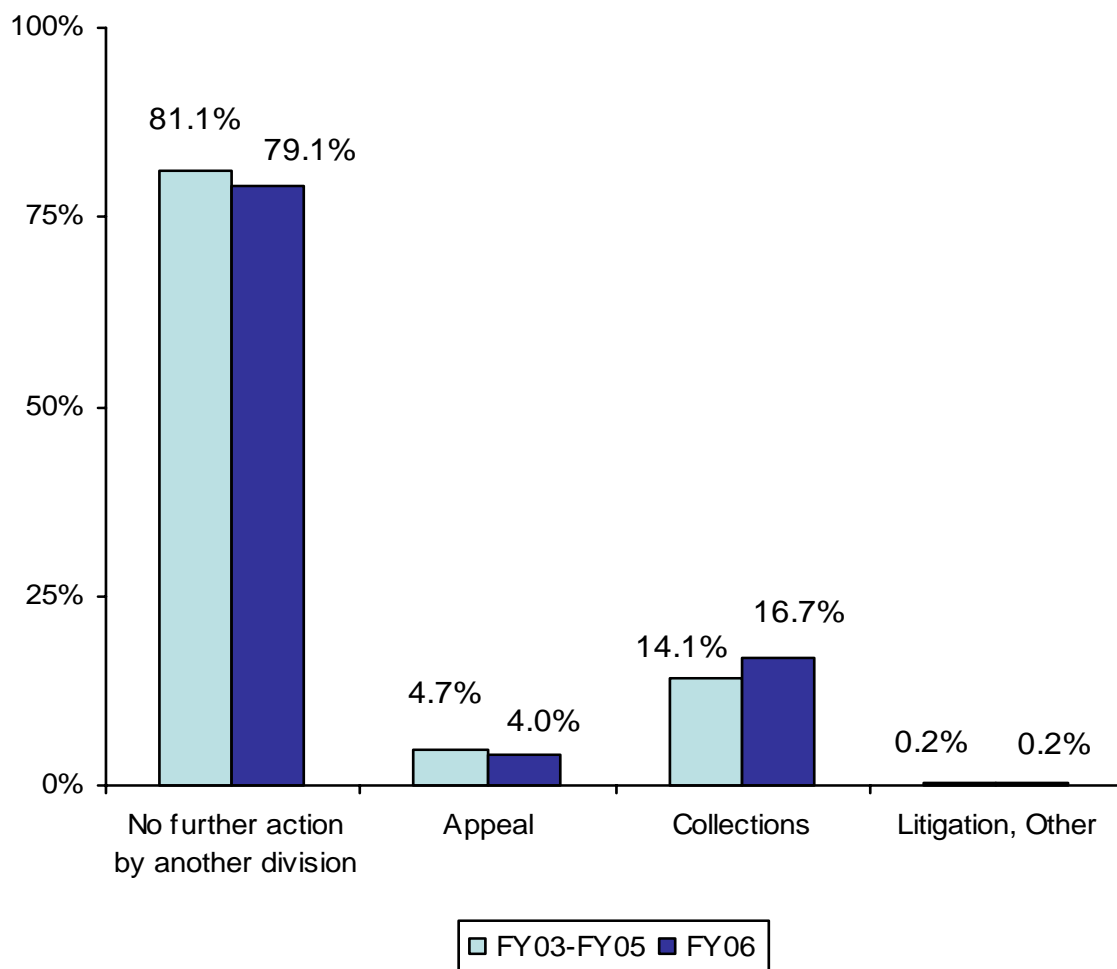


Analysis

- This is just a sample of industries; we audit all industries.
- Yearly changes show that reviewing a single year to analyze coverage can be misleading.
- Large shifts each year can be due to a few large assessments.
- Averaging multiple years provides a better analysis tool to determine appropriate audit coverage.

Business Compliance Audits

What happens after an assessment?



Analysis

- 79.1% of assessments are paid timely.
- 4% of assessments file administrative petitions. The issues appealed are oftentimes complex.
- 16.7% of assessments were referred for internal collection. They are ultimately paid but require additional resources.
- 0.2% of assessments result in litigation.

Business Compliance Audits

We are benchmarking with other states to share best practices.



State*	# Audits / # Auditors	# Auditors / Gross State Product ("GSP")	Assessment \$ / # Audits	\$ Assessed / # Auditors	Total Assessments Scaled for GSP
"A"	13.04	0.0678	71,874	961,177	63,276
"B"	15.02	0.0772	156,915	2,338,387	179,316
"C"	137.66	0.0780	5,203	664,633	52,584
"D"	19.69	0.1510	40,595	725,426	111,272
WA	36.47	.0721	35,748	1,286,478	92,040

* Agreement with benchmarking states is to keep identifying information confidential; above is a sample of the data collected.

Background

- Phase 1 participants include: Arkansas, Connecticut, Louisiana, Missouri, Montana, Oregon, Pennsylvania, South Dakota, Utah, West Virginia, Wisconsin, Wyoming.
- Phase 2 has been joined by: California, Michigan, Tennessee.
- Washington's tax structure is unique, making comparisons difficult.
- Audit function varies significantly from state to state.

Analysis

- Revenue is in the top 3 or 4 out of 12 in various comparisons.
- Working with other states to learn about best practices.
- Need to share "what", "how", "why".
- State "B" has a recurring amnesty program which increases assessments.
- State "C" has a unique way of determining their audit count.